IFU'S BEST PRACTICE ON BUSINESS PLANS

A HANDBOOK FOR OUR PARTNERS

INVESTMENT FUND FOR
DEVELOPING COUNTRIES

IFU as a partner

IFU – Investment Fund for Developing Countries is a development finance institution offering advice and risk capital to companies wishing to do business in developing countries and emerging markets. The purpose is to contribute to the economic and social development in the host countries.

IFU invests risk capital on market terms in the form of share capital, loans and guarantees in private sector companies that are established in developing countries or emerging markets. We provide professional advice regarding the business environment, investment terms and sustainability issues as well as cultural and political barriers, etc. with assistance from our regional offices and through our global network of advisers.

IFU as a fund manager

As a fund manager, IFU has invested in nearly 1,200 project companies in developing countries and emerging markets in Asia, Africa, Latin America and Europe. IFU is currently the manager of five different funds and functions as the entry point to ensure that each investment is undertaken within the most relevant framework, whether it is directly through IFU or through one of our funds.

IFU as a grant facilitator

IFU administers a number of grants through which we offer financial support to our partners within the areas of sustainability training, business development, technical due diligence and green investments. The grants have different limits in terms of size and scope and additionally, eligibility can be restricted by amounts, geographical location, size of the partner and use of funds.

Financial subsidies for sustainability training in our project companies are provided by means of a Danida Grant. IFU also administers an SME facility, which can provide means and technical assistance for the preparation and implementation of projects undertaken by Danish small or medium-sized enterprises (SMEs) investing abroad. Additionally, IFU has a Neighbourhood Energy facility (NEF), which can provide grants to private companies to increase energy efficiency and develop new climate projects in Albania, Armenia, Azerbaijan, Belarus, Bosnia-Hercegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro, Serbia, Turkey and Ukraine.

PREFACE

Business planning is the foundation for building a successful business. A business plan provides direction, keeps you on track and is usually a requirement when you seek external finance from a bank or a finance institution like IFU. When a company plans to enter a new market, a business plan is particularly important given the uncertainty related to market conditions, consumer behaviour, legislative framework, country risk, cultural differences, etc.

A business plan is not just a document. It is a holistic analysis of your company, the environment it operates in, and a route map to achieving success based on the available resources. Unfortunately, the image many companies have of a business plan is a 30-page document solely made to satisfy external investors. They focus on 'the output', whereas the real value in a business plan must be the business-planning process itself and the guidance it gives to the company in making the right investment decision.

IFU has nearly 50 years of experience and has worked in over 100 countries. Having IFU as a partner means that you can draw on our extensive knowledge related to business environment, commercial legislation and culture in the host countries. We are ready to provide you with advice regarding business plan evaluation, board work, sustainability, recruitment, etc. We can also assist you in gaining easier access to local authorities and relevant lawyers, auditors and trade organisations.

Independent of how far you are in the strategic process, you are always welcome to contact us. We are happy to engage in a dialogue about the best strategic approach or the viability of a project.

Morten Christiansen
Senior Vice President,
Investment Management

Bettina Vester
Investment Manager

Tommy Thomsen
CEO

Lisbeth Erlands
Vice President,
Europe and MENA

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1 How to use this handbook

This handbook is written primarily for companies who plan to expand their business into an emerging market or developing country, either by investing in a new subsidiary company (greenfield) or in an existing company (brownfield). Project companies with existing operations seeking to expand or shift their strategic focus may also use the handbook as a source of inspiration on how to approach the strategic planning process. More over, this handbook is not a guide on how to write a business plan that will impress investors, but it lays down the process for writing a 'good' business plan. It is a handbook on how to work with the business plan as part of your company's decision making and strategic process. By following the suggested table of contents, the business plan will also encompass most of the information that potential investors will need in order to determine whether or not they should provide financial means for your company's new business.

The content of the handbook is inspired by IFU's nearly 50 years of investment experience in developing countries in cooperation with Danish companies. Doing business in developing countries cannot be compared to doing business in Denmark or Western Europe as it requires different research, preparation, considerations and competences. While sustainability has become an area of concern and interest to corporations all over the world, the challenges related to sustainability when operating in developing countries are often new to Danish companies. These challenges require that the companies from the beginning establish proper procedures for the management of environmental, social and governance risks.

"By failing to prepare, you are preparing to fail

BENJAMIN FRANKLIN,
18TH CENTURY STATESMAN
AND DIPLOMAT

It must always be kept in mind that no business is the same. The strategy and business plan process depends on the size, scope and context of your business and your target market. Consequently, while reading the handbook, you can skip any question or topic that does not apply to your business and instead focus your time on the areas that are of particular importance to your business. The overall purpose of this handbook is to help you identify the key success factors for your business. This process consists of identifying and answering key questions in connection to your business plan. The checklists following each section can provide a framework for this purpose.

Your company may already have a written strategy used for internal decision-making. In this case, the business plan may focus more on adapting the plan to the format that an investor will expect to see. For this purpose, you should focus on the checklists for each section to ensure that the main information is included. An overview of all the key questions from each section can be found in Appendix C.

Finally, it must be emphasised that IFU does not require you to hand in a full-fledged (finished) business plan when contacting us regarding co-financing. In many cases, IFU can offer advice on how to polish off the business strategy, including but not limited to legal setup, contractual agreements, sustainability, search and selection procedures, etc. This is an open invitation for you to draw on IFU's investment professionals in the head office in Copenhagen as well as in our ten regional offices abroad.

2 Writing a business plan

2.1 Executive summary

A business plan must start out with a short, executive summary, which gives a brief outline of the most important points from the business plan and explains the fundamentals of the business.

The executive summary should provide everything that a reader must know about the project. It must be written in a professional, comprehensible and concise manner, giving the reader an understanding of the product, the customers, the partners and the future potential. For a business plan directed towards potential investors, the executive summary must clearly state the funding needs, i.e. the amounts involved and the kind of capital required. Having read this section, the reader must be able to answer the questions given in the checklist below.

IFU INSIGHTS

5 tips for writing a summary

1. Give a brief and comprehensible outline of the project and write the summary with the reader in mind – what does a potential investor need to know?
2. Clearly state amounts, type of capital needed and (if relevant) the expected return.
3. Take your time. Writing a good summary is a time-consuming task, but it is time well spent.
4. Write this section last.
5. Highlight the top selling points of the business case.

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If you can't say it simply and clearly, keep quiet, and keep working on it till you can.

KARL POPPER,
PHILOSOPHER

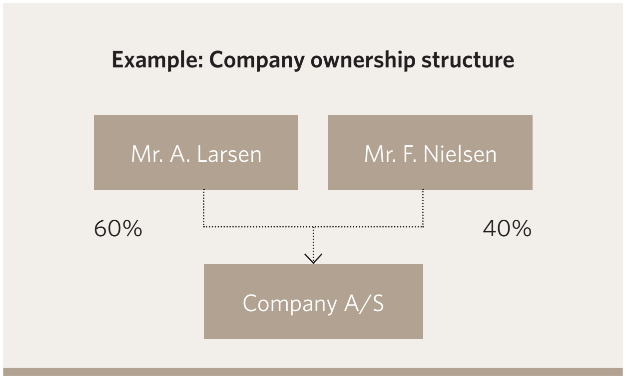
CHECKLIST

- What is the business concept?
- What is your competitive advantage?
- Who are the stakeholders and management?
- What kind of technology is used?
- How does the product fit the market?
- What is the long term mission?
- What kind of capital is needed?
- What is the expected investment horizon?

2.2 Company presentation

Well begun is half done, and a good place to start is by introducing the company or the people behind the idea. Whether your company is a multinational firm or a small or medium-sized enterprise (SME), you should always start out by introducing yourself. While this part may seem a bit trivial, considerations regarding the project promoter are important in the business planning.

As a co-investor, IFU or any other financial institution wants to understand the value proposition of your company - why are you the right company to undertake this project? Consequently, the company presentation must include an outline of the mission and vision, area(s) of business, main existing markets, geographical scope, industry and company history. If the company has a mission statement explaining its guiding principles, this should also be included - potentially followed by company goals and objectives.



The form of ownership and the company history must be described – is it a family-owned business? How did it develop? What is the current form of ownership – sole proprietor, partnership, publicly traded, etc.? A good way of presenting this is by drawing a diagram of the ownership structure that allows the reader to get a concise and visual overview. If two or more companies are forming a joint venture to undertake the project, this section must cover similar details on each partner and must also clearly describe their respective role(s) in the project. If the company is already active in one or more emerging markets or developing countries, a brief description of these activities is also relevant to include.

Reflections regarding the strength and capacity of the company to undertake the proposed project must be made in terms of managerial as well as financial strength. Bear in mind that projects always require more resources than expected. Does the company have the in-house expertise needed to prepare for this investment?

It must be ensured that the financial capacity and performance of the company supports the expected financial involvement in the project. IFU recommends that the business plan includes an overview of the financial performance over the past 3-5 years and that the audited accounts for the past three years are placed in an appendix along with the business plan. A brief description of past and present challenges and opportunities must complement the numbers and describe the reason behind any major deviations (positive or negative). It is important to present how the company has, or intends to, overcome challenges.

Example: Company A/S: Financial overview

In DKK '000	2013	2014	2015
Profit and loss			
Turnover	1,000	1,500	2,500
EBIT	500	800	1,400
Profit after tax	350	450	800
Declared dividends	0	0	400
Assets			
Current assets	400	500	600
Non-current assets	1,600	2,000	4,400
Total balance	2,000	2,500	5,000
Liabilities and equity			
Equity	1,000	1,350	3,000
Current liabilities	500	650	1,000
Non-current liabilities	500	500	1,000

Finally, the company presentation must describe the long-term strategy for the business as well as how the current business project fits into these plans. Is it part of a market expansion strategy? If the answer is yes, why has this specific country been chosen? Is the company outsourcing production? Or is this location simply ideal for this project (e.g. because of natural resource availability). In the latter case, a detailed reasoning for the choice of location may be more appropriately placed in the business case section.

CHECKLIST

- What do you do?
- What kind of business are you in?
- Who are you? Who owns the company? Include a diagram describing the ownership structure.
- What is the company history?
- How good are you at what you do? Present the financial performance over the last couple of years (turnover, net result, equity, etc.).
- How does this project align with the long term company strategy?

2.3 Business case

A convincing business idea is the starting point for every successful business and consequently, the presentation of the business case lies at the heart of any business plan. This section must describe the business case of the project to the investors and include a clear and concise explanation of the competitive advantage of the product and how it will generate a profit.

IFU INSIGHTS

Show off – but keep it simple

When describing your business case, focus should be on presenting the results of all the time and consideration that has been put into developing this project – prove that you have done your homework, but in a simple and clear manner and without window dressing.

You are more than welcome to include drawings, photos or diagrams to explain the concept. However, we advise that complicated technical specifications, drawings etc. are placed in the appendices.

The structure of the business case may differ widely depending on the nature of the project. If the project proposal is an expansion of an existing product or service line into a new market, the structure of the business case may consist of a brief description of the product and the technology, followed by information on how it has performed in the existing market. If the product or service is new, the concept must be described more in detail and include reasoning for the choice of technology and raw materials. The extent and quality of the company's technology and/or technological expertise may also be relevant to describe, especially if the technology employed is a core part of the value proposition of the company.

IFU INSIGHTS

Wages and efficiency often go hand in hand

Many companies have been captivated by the advantages of low labour and production costs in a given developing country or emerging market. However, in IFU's experience they soon learn that productivity and efficiency are often equally low.

Two of the main drivers for foreign direct investments are penetrating a new market and taking advantage of low production costs. Are either of these factors included in your strategy? In addition to the product and production methods, the choice of geographical location must be justified and thoroughly explained. Why is the company e.g. setting up a manufacturing plant in China instead of India? Is it due to cost competitiveness, the local market potential or a favourable regulatory environment? Finally, the revenue mechanism must be described in detail. Are there any off-take agreements, etc.? What are the margins? And how is this business going to generate a return to its investors?

When presenting the business case, you should strive for clarity and simplicity. The receivers of the business plan are most likely not industry experts and may not be familiar with the jargon of trade or technical details. Finding a balance between providing evidence for the strength of the business idea and making it understandable to an outside investor is the first and foremost goal when presenting the business case.

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Simplicity and common sense should characterise planning and strategic direction.

INGVAR KAMPRAD,
FOUNDER OF IKEA

IFU INSIGHTS

...and then? Looking beyond the horizon

As a potential investor, IFU is not only interested in what takes place during the investment period – we are intrigued to know what will happen down the road. Is there an exit planned, e.g. in the form of an IPO or a share sale, or do you intend to make the project a part of your core strategy? Have you considered expanding the business into new countries or product segments if this venture is successful? What is the long term vision?

CHECKLIST

- What is the business concept and rationale? Describe the main product/service – what problem does it solve?
- Who is going to buy it?
- How is this business going to generate a profit? What is the pricing or fee structure of your products and services?
- What is the competitive advantage of this product compared to its competitors?
- Why has the specific country and site been chosen?
- What is your production technology level compared to the local competitors in the market? Best technology available, average well known technology or lower quality technology employed?
- Does the company have or need to obtain any licenses or patents critical to the company's business?

2.4 Market, industry and competition

The primary task of any business is to meet the needs of its customers. Consequently, knowing your market is essential for success. This section of the business plan must as a minimum answer the following:

- What is the market size for the product?
- What is the expected growth rate in the market?
- Can the market meet the expectations of the growth potential of the business?
- How will you capture a market share?

While investors will require some evidence of the market potential, conducting a market analysis should not be done just to satisfy investors. Assessing the market potential, industry risk and competitor situation must be a key part of the strategic development phase and must underpin the decision to undertake the project.

The analysis must be as specific as possible and the arguments must be supported with numbers and sources. One of the questions any potential investor will ask is: Do the revenue projections hold? Reliable sources and thorough analysis provide credibility to the sales projections, which will be a cornerstone in the financial model (introduced in section 2.10). If the company has any prior experience with the market, e.g. through exports from Denmark, the existing track record within the market must be included.

IFU INSIGHTS

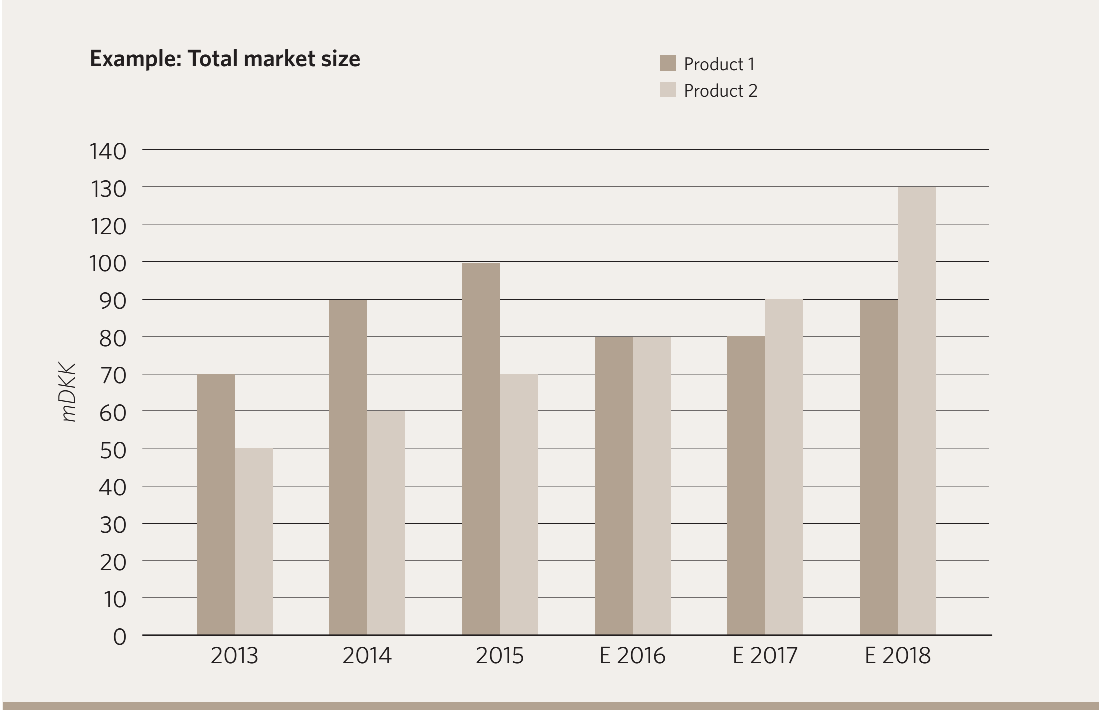
Lack of supply does not equal excess demand

When investing in developing countries, many companies make the mistake of assuming that if their product is good, there will be a natural consumer demand. This is not how it works. Unless the product or service offered is related to basic necessities, consumers will need to be introduced to the product and learn to demand it. Building a new market requires time, effort and a comprehensive marketing strategy, and the resources required must not be underestimated.

Market description and forecast

The first step in a market analysis is to get to know the market. What is the size in terms of value and customers? What are the historical and expected future growth rates? If the market exists already, these figures are most likely easy to obtain. If a market needs to be developed, the task is more difficult, but equally more important. What is the expected number of customers? Expected growth rates? It may be necessary to conduct a market study and potentially hire a consultant to do the job.

It is also relevant to mention specific trends in the market – related to e.g. growth, consumer preferences or product development. Investors and entrepreneurs alike look for markets in growth, because it is often easier to obtain a share of a growing market than it is to fight with entrenched competitors for a share of a mature or stagnant market.



Industry

A brief description of the industry can be a helpful starting point for describing the market potential of a product. What characterises the industry and its players? What is the technological level of the industry compared to the technology of the project? This is especially important if the technology is considered a core part of the company's competitive advantage.

The industry power dynamics must be analysed. What are the power relations between suppliers, distributors and customers within this industry? For instance, if an industry is characterised by state monopoly, this is likely to constitute a very serious barrier for new entrants. A monopoly occurs when one company is the main provider of a product or service in a market.

HOW CAN IFU ASSIST YOU?

A professional market study by a consultant may be money well spent if the company does not have the necessary in-house knowledge. If you require more assistance, IFU has a large network of advisers in the host countries which we can refer Danish enterprises to. The local Danish embassies, industry organisations and representatives of Danish business associations may also be of assistance.

In general, there are a number of entry barriers that are particularly relevant in developing countries and undeveloped markets, which must be considered. Some of the most common entry barriers are related to the legal and regulatory environment and the competitive situation. It is e.g. important to find out whether or not there is adequate legal protection in the host country. If a company cannot assume protection of its intellectual property (copyrights, patents, trademarks), and fair and effective dispute settlement mechanisms are not in place, it is likely to suffer losses in the market. In this regard, it should be considered whether the company needs to take action to protect its intellectual property.

Competitor analysis

This section must describe the major players in the market and their respective market shares as well as the company's own market share – preferably over time. It is important to explain whether competitors are competing "across the board" or only in specific product groups or locations.

Example: Market shares (%)	2012	2013	2014	2015
Player 1	45%	47%	48%	52%
Player 2	30%	31%	28%	20%
Your company	25%	22%	24%	28%

"If there is no competition, there is probably no market.

BRIAN WOOD,
VENTURE CAPITALIST

Marketing plan

If relevant for the area of business, the marketing strategy must be outlined. How are the customers going to learn about the product? Is there an advertisement strategy in place? What is the pricing strategy? Is the product to be branded as a luxury good or is the strategy to compete on costs and offer a lower price than the competitors? What is the size of the marketing budget? A good business plan must demonstrate careful consideration regarding the pricing scheme.

MARKET RISK

Consider the degree to which the project is exposed to:

- Market risk
  Is the market growing or stagnating?
- Customer risk
  Is off-take dependent on a single or few buyers?
- Competitor risk
  How fierce is the competition?

Sales forecast

After having systematically analysed the product, the industry, the market and the competition, it must all be synthesised into a forecast of expected sales and market shares.

Example: Sales forecast			
In DKK '000	2016	2017	2018
Sales volume	500	750	1,100
Sales price	12	12	12
Total revenue	**6,000**	**9,000**	**13,200**

Using a spreadsheet, a revenue forecast must be prepared based on historical sales, the marketing strategy, the market research and, if available, industry data. Assumptions used for the forecast must be stated clearly. A table with expected sales volume and prices is a good way to provide the reader with an overview of the sales potential.

CHECKLIST

- What characterises the industry? (Balance of power, technology level etc.)
- What is the total current size of the market?
- What is your current market share?
- What are the growth expectations of the total market size?
- What are the growth expectations of your market share?
- Who are the major players in the market?
- Do you have a marketing strategy?
- What are the expected sales in terms of price and volume?
- What is the level of technology compared to the industry?

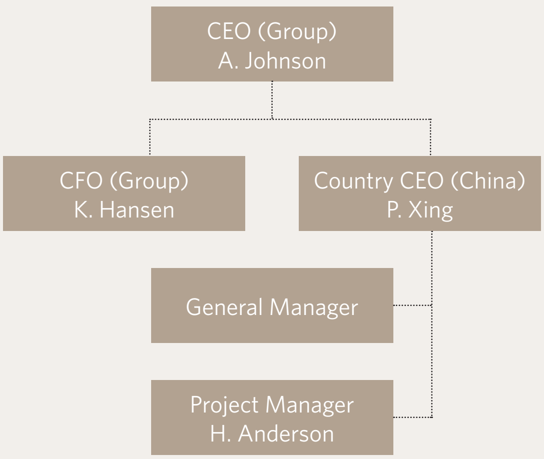
2.5 Organisation and management

In IFU's experience, good management and qualified employees are key to the success of any business. Consequently, the selection of the right management team and the organisational set-up must be carefully considered. These considerations and their outcome must be presented in the business plan. This section must also describe any considerations regarding contractual relationships with partners. If no candidates have been identified, the envisaged search and selection process must be described.

Organisation

In order to give the reader an overview of the managerial layers and the organisational set-up of the business, it is a good idea to include an organisational chart. The number of managerial layers in the daily operations must be clearly described. If the project company is established as a subsidiary, the managerial ties between headquarters and subsidiary must be visible from the chart and additionally the relationship between the headquarters and subsidiary must be described. If any inter-company business will take place, this must also be mentioned, including royalties, management fees, arms-length transactions, etc.

Example: Organisational chart



The management team

Bringing together a group of people is not enough to ensure good teamwork. This requires the right management team. For this reason, the question of whether the management should include a seperate CEO, CFO and CTO or just one person having multiple responsibilities should be considered carefully. The main goal is to find a management team that possesses the most important skills required for the project to become a success in each phase of the project life cycle (development, construction and operation). Note that it may be necessary to change the team once the project enters a new phase.

If the management team has already been identified, the names and CVs of the candidates must be presented in the business plan or in the appendices. What skills and experience do these people bring to the business? If a team is already in place, it must also be discussed to what extent the current team matches the requirements identified and whether there are any gaps which need to be filled. If the management team has not yet been identified, this section of the business plan must describe how the search and selection process will take place, e.g. if an external recruitment company will be hired. In addition to skills, motivation and personality types of the management must also be assessed – for this purpose,

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I invest in management, not ideas.

EUGENE KLEINER,
VENTURE CAPITALIST

it may be money well spent to take external consultants on board. See Appendix A for best practices on how to achieve a fit between the targets of the company and the person most suitable for achieving them.

Clarification of key roles	Identified candidates for key roles
Key role xx:	> Name:
Main strategic, tactical and operational responsibilities for the position	Describe any candidates already identified for the role in question
Key role xx:	> Name:
Key role xx:	> Name:

IFU INSIGHTS

Bad management is the no. 1 reason for failure

When IFU appraises a business plan, organisation and management are some of the areas we pay particular attention to. Analysis of our exited projects shows that bad management is the most significant factor when projects go wrong. While it is essential to have good management in place right from the start of operations , finding and hiring good project management is often a challenge.

A few lessons learned on cross-border management:

1. Be aware of (and understand) cultural differences.
2. Good managers are expensive – has this been incorporated into the budget? Has a performance structure been arranged or considered?
3. In general, family relations in management should be avoided unless there is a reason to believe that the relative in question is the best person for the job – being the son of the company founder is not a sufficient reason for being appointed CEO.
4. Identify skill gaps in the management team and figure out how to fill them.
5. Consider whether the manager can be associated with any sideline business that can be a potential conflict of interest for the project.

Compensation packages and incentives

In order to align the interests of management and owners, appropriate incentive schemes and performance packages must be in place. This can be relevant in all organisational layers, but is particularly important for key management personnel. A performance-based salary or bonus package, which is aligned with the goals of the shareholders, can help ensure that the local management is working towards the same goals as the owners. This is very important when the local manager is situated in a different country than the board, which makes monitoring of daily operations more difficult.

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Managers with equity shares

Be very careful about the use of option schemes whereby managers are given equity shares as part of their compensation packages. If the board at a later stage wishes to dismiss the manager, this is inevitably much more complicated when the person in question is a shareholder. In any case, always incorporate a share buy-back option for the company or the shareholders in the manager's employment contract. In cases where management incentive schemes are used, the implications for the shareholding structure may also be relevant to consider.

IFU INSIGHTS

Cultural diversity is a fact of international business

IFU's investments are characterised by being international investments, which involves establishing a subsidiary or joint venture company in a country outside of the partner company's existing operations. As a result, cultural differences are common and must be given special attention. While this is important to consider in relation to the marketing plan , it is of crucial importance in connection to the organisational set-up and selection of management. An appropriate balance must be found between expatriates and local talent, which both have pros and cons. Some of IFU's best experiences have been with internationally educated locals.

HOW CAN IFU ASSIST YOU?

IFU can be of assistance with advice and network for international recruitment.

CHECKLIST

- How does the organisational set-up and managerial layers look? Include an organisational chart.
- Has the management team been identified?
  If yes: Who are the members of your management team and what skills do they contribute with? Has the team worked together before? Are there any skill gaps which need to be filled?
  If not: What experience and skills are needed and how will the selection process take place?
- How are the compensation packages for key management personnel structured? Are there any performance-based elements?

2.6 Corporate Governance

The term “corporate governance” refers to the structures and processes for the direction and control of companies, in particular the structures and relationships between shareholders and other stakeholders. The management of risk and culture is key to governance. The decisions, actions and strategies of the board and management must all aim to create strong risk management and a culture that supports “doing the right thing”. Sound corporate governance reduces risk, adds value to investments, and reduces the chance of reputational risks for the investors.

The board of directors is central to corporate governance and functions as the link between the owners of the company, the shareholders and the day-to-day management. Consequently, the board must be in place from the beginning. One of the key elements of good corporate governance is to clarify the role and responsibilities of the board of directors vis-á-vis the management. Which decision-making powers have the management been authorised with? The corporate governance frameworks differ and involve different traditions around the world, so the choice of governance structure must depend on the legal, regulatory, institutional and ethical environment in the country and the community in which the company operates. Having a competent board “on board”

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The unique role of the board: Six key elements

The board has a set of key objectives and activities:

Governance: To establish structures and processes for the board that considers the perspectives of shareholder and stakeholder expectations. Board composition must be based on an inclusive and thoughtful process and should be aligned with company strategy.

Strategy: Advising the management in relation to the development of strategic priorities and plans that align with the mission of the organisation and the best interests of stakeholders. These strategic priorities should have an appropriate short-, mid-, and long-term focus. The board also actively monitors management’s execution of approved strategic plans.

Performance: Reviewing and approving company strategy, annual operating plans and financial plans. The board also monitors management execution against established budgets as well as alignment with strategic objectives.

Integrity: Setting the ethical tenor for the company, while management adopts and implements policies and procedures designed to promote both legal compliance and appropriate standards of honesty, integrity, and ethics throughout the organisation.

Talent: The board selects, evaluates and compensates the CEO and oversees the talent programmes of the company, particularly those related to executive leadership and potential successors to the CEO.

Risk governance: The board understands and appropriately monitors the company’s strategic, operational, financial and compliance risk exposures, and it collaborates with management in setting risk appetite, tolerances and alignment with strategic priorities.

from the beginning also ensures that proper reporting and monitoring systems are in place from the start.

It must be considered which skills that are required for the board to satisfactorily fulfil its role. Subsequently, the board should be composed so that the candidates match the required skills identified. The benefits of having external and thereby independent members of the board should be considered.

In Appendix B, we have included a "Checklist for Board Members", which is a brief guide to the assignments and responsibilities related to board work (the checklist below is primarily related to corporate governance). For more information and guidance on corporate governance and board work, we refer to our "Handbook on Best Practice on Board Work", which applies to all investments made by IFU-managed funds.

HOW CAN IFU ASSIST YOU?

IFU is typically represented on the board of our investments, either as an observer or a board member. Drawing on our experience from more than 1,250 investments (as of ultimo 2015), IFU's investment professionals are ready to assist you, not only with active engagement and participation on the board, but also with board composition, recruitment of independent board members and advice on good corporate governance structures.

CHECKLIST

- Does the company have a corporate governance policy?
- Does the company have a code of ethics?
- Does the company have a designated officer responsible for ensuring compliance with the company's corporate governance policy and code of ethics? How is compliance monitored?
- What is the composition of the board of directors and/or how is it determined?
- Are there any independent directors? How were/will they be selected?
- How often does the board of directors meet?
- What is understood as the role of the board of directors vis-à-vis management? In particular with respect to the following:
  (1) Setting strategy and vision of the company;
  (2) Selecting the CEO and senior management
- How does the mix of skills/experience on the board of directors serve the company's interests?

2.7 Sustainability

Sustainability is about managing environmental, social and governance risks and impacts. This is key to IFU and we believe that it is imperative for businesses today. Although implementation can be challenging in some markets, sustainability is a prerequisite for long term corporate success. It is an important element of risk and reputation management and it ensures that businesses add value to society.

To outline the business case for sustainability, some of the benefits that may be achieved are:

- Saving resources and minimising pollution often means saving expenses like costs of water and energy.
- Well trained employees make fewer mistakes, meaning better quality products and higher efficiency.
- Fewer incidents and accidents due to training and protection equipment mean fewer lost (costly) work days.
- Good working conditions and sustainable standards give loyal employees, lower turnover rates and increased productivity.
- Being a good neighbour in the local community improves your reputation and makes it easier to recruit the best employees.

We believe in social, environmental and financial sustainability

IFU is committed to ensuring that our partners reduce sustainability risks and contribute positively to sustainable development. This is e.g. done by creating decent jobs and addressing local issues, which we believe will help secure the social licence to operate and increase company profits at the same time.

The sustainability section of the business plan

By incorporating sustainability into your business plan, you show potential investors that the business and its partners are committed to be sustainable and operate responsibly in alignment with universal principles for environmental, social and governance issues. This means that you have the ability to identify and mitigate environmental and social risks together with associated reputational risks and at the same time explore the opportunity to add value to society. The business plan must describe potential and specific risks already identified, as well as propose mitigation measures. If the risk identification has not taken place yet, the procedure for carrying it out must be outlined (for more details on risk analysis, see section 2.11). Moreover, any positive development impacts can also be mentioned, such as job creation, transfer of know-how and technology, construction of infrastructure, etc.

This section must also describe the general approach taken towards sustainability. A system of procedures for making and implementing sustainability related decisions must be established, which matches the size and sector in which the business operates together with the environmental and social context. Many companies have a sustainability policy for this purpose, which provides the framework and determines the level of ambition for the sustainability effort. The policy clarifies the commitment to improve environmental, health and safety issues, and it must state areas of zero tolerance such

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as underage work and corruption. If a sustainability policy exists, it could be included in the business plan. It must also be considered whether the company will have its management system certified according to an internationally acknowledged standard such as ISO 14000, OHSAS 18000 or SA 8000. Such a certification provides stakeholders with an assurance that the partners aim to meet international standards.

Combating corruption

Corruption is not only recognised as one of the greatest barriers to sustainable development, but also a large potential risk factor for the project company. For a Danish company entering a developing market for the first time, dealing with requests of facilitation payments, bribery, etc. can be a new and challenging task. The importance of establishing a culture of anti-corruption and implementing procedures for managing corruption risk cannot be stressed enough.

IFU's zero tolerance policy covers bribery of public officials, private-to-private transactions and other aspects of corruption such as fraud and money laundering of the proceeds of corruption. Facilitation payments are also considered a form of bribery and

IFU INSIGHTS

IFU strongly urges companies to always say 'no' to corruption.

Development and corruption has a correlation, and from a development point of view it is essential to break with the practise of corruption in order to curb inequality and advance development. On the operational level, all experience show that if a company has accepted even a small bribe once, it is very difficult to avoid the next time.

In IFU's experience, it is possible to do business in developing countries based on zero-tolerance if the company has a clearly defined policy and is persistent.

HOW CAN IFU ASSIST YOU?

IFU's sustainability team is ready to engage with you on how and why to implement sustainability in the project company. We participate actively in finding a solution to any sustainability issues in our projects and have experience with a wide range of issues.

IFU has developed a number of tools and templates to support the project companies in their work with sustainability, and we are of course prepared to assist with advice on which tools might be most appropriate considering the needs and ambition level of the company. Additionally, we have a CSR grant in cooperation with Danida, which projects can apply for in relation to training activities.

are prohibited by law in most countries. These are payments or gifts to secure or expedite the performance of a routine action or service to which the project company is entitled and are typically demanded by low-level or low-income government officials.

For more information and guidance on sustainability, we refer to our "Sustainability Handbook", which applies to all investments made by IFU-managed funds. The requirements and recommendations are based on IFU's long experience with sustainability and follow the internationally recognised principles in the UN Global Compact and in the UN Guiding Principles on Business and Human Rights.

CHECKLIST

- What are the development impacts of the project? Job creation, technology transfer, community development, infrastructure, etc.
- Have potential environmental, social and associated reputational risks been identified? If yes, how are they addressed?
- Is the top management committed to sustainability?
- Has/will the project adopt a written sustainability policy?
- Is a suitably trained person with appropriate knowledge of sustainability issues assigned or available?
- Will the project implement an environmental and social management system to guide the daily work?

2.8 Legal, regulatory and political environment

The choice of location in terms of country and sometimes city/region is a crucial part of the business strategy. Consequently, the external environmental factors related to the chosen host location that may affect the business must be assessed closely. The choice of host country should not only be related to the availability of human and natural resources, but also to the legal, regulatory and political environment.

IFU INSIGHTS

Be aware of tax legislation

Observe transfer pricing regulations both in Denmark and in the host country of your new operation and consult a tax specialist to avoid unpleasant tax inspection surprises later on.

Legal and regulatory environment

Current legislation that will have an impact on the business must be considered. This includes among other things the legal environment for setting up a foreign-owned company – some countries have requirements of local ownership or content, which impact the legal and organisational set-up. Government regulations on exchange controls and requirements for cross-border capital transfer and extraction of capital must be outlined, if it is relevant to the business. Tax rules, customs, duties and other regulations may have important implications for profitability. What is the relevant tax legislation? Are there any subsidies, tax holidays or other incentive schemes which the business may be able to take advantage of? The status for licensing and permits related to manufacturing, environment, etc. could also be a relevant topic under this heading. Depending on the stage of development, this section must also mention the degree to which the project complies with legislation and regulatory requirements, and if they are not yet compliant, what will be done to achieve this.

IFU INSIGHTS

Good legal advice is expensive but important

In a tight investment budget, legal counsel may seem to be an area where it is possible to save money as good lawyers in developing countries are very expensive. However, money spent on preventing conflicts with local authorities is money well spent as there are no short cuts in terms of securing compliance with local rules and regulations.

Political environment

The political environment may be among the least predictable elements of the strategy. Factors such as the level of corruption and the political stability of the country may have important implications for business and must be a prominent part of the risk analysis (see section 2.11). Is the political situation expected to develop in a certain direction, and how will this affect the economy? Is there any risk of drastic changes in regulations of the industry in question? In case the customer is a government-entity, is there any critical sovereign risk to be aware of? Has any other companies in the sector experienced problems with delayed payments or similar? Additionally, it must also be considered if there is any currency risk, inflation risk, etc. related to the country and its political environment. The possibility to buy political risk insurance must also be addressed if the political environment is assessed as high-risk. It can often be an advantage to use a local adviser or talk to other international companies about these considerations.

HOW CAN IFU ASSIST YOU?

IFUs regional offices and extensive adviser network can be of assistance if a thorough risk assessment is needed. IFU can also be of assistance in establishing contact to good lawyers and tax advisers.

COUNTRY RISK

Consider the degree to which the project is exposed to:

- Political risk
  What is the stability level of the political situation and the current business climate? Are there any specific policies (government incentives, etc.) that relate to your particular sector and are these policies likely to continue after the next election? When are the next elections?

- Legal risk
  Are all contracts under local law? If so, what is the average enforceability?

- Currency risk
  Will the revenue stream be in local currency only? What is the cost of hedging arrangements with a commercial bank? Will a potential devaluation of the local currency improve the business case (as the local costs will be cheaper)?

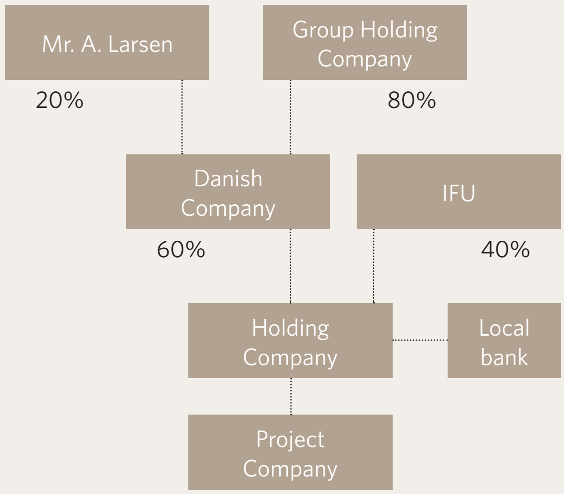
CHECKLIST

- How is the country risk assessed? Is the country in general viewed as a high or low risk market?
- Are there any government incentives or support?
- What is the relevant tax legislation?
- Are there any legal issues to consider with regards to e.g. capital entry, exit or repatriation?
- Are there any import or export restrictions?
- Are licenses and permits in place?

2.9 Structure and financing

The proposed organisational and capital structure of the project must be clearly described in the business plan. In this regard, an ownership chart depicting the company structure, shareholdings and debt relations can be a good way of creating an overview of the overall structure of the investment project.

Example: Ownership chart



As company registration often needs to take place early on in the process in order to apply for permits and licenses, it is important to consider the legal structure of the investment project already from the beginning. The corporate form must be chosen in the context of the legal framework, local tax regulations and the expected exit mechanism for the investors. Is a limited company or a private limited company the best form? Will the investment take place through a holding company? Considering the entire project life cycle is important when deciding upon the legal structure.

The proposed financial structure must be described as detailed as possible. How much capital is being provided from your own sources and how much capital is required from external sources? The level of gearing must be considered carefully – in IFU's experience, 40-50% equity is often a good rule of thumb. Another important element is currency risk and the need for currency hedging, which will increase the cost of debt.

Questions to consider in relation to the financial structure:

- What is the expected equity/debt ratio?
- Who are the committed or expected shareholders?
- If any loans have already been negotiated, who are the lenders and what are the debt terms?
- If not, where is debt financing expected to come from? Is the company currently in discussions with any banks or financial institutions? What are the anticipated debt terms?
- How much capital needs to be financed (external sources), and what are the expected terms offered to a new investor?
- Have the VAT payments, which will be paid during the construction process, been included in the working capital?
- What is the expected requirement for working capital?

Example: Proposed financing				
In DKK '000	Year 1	Year 2	Year 3	Total
Share capital	**20,000**	**10,000**		**30,000**
Partner A	15,000			15,000
Partner B	5,000	10,000		15,000
Loan capital	**10,000**		**20,000**	**30,000**
Bank A	10,000			10,000
Bank B			20,000	20,000
Total	30,000	10,000	20,000	60,000

Partners, joint ventures and acquisitions

As part of the business planning process, it must be considered whether or not it will be an advantage to include partners. In some cases, having a local partner may gain you market access or even be required by host country laws. In other cases, a partnership can turn out to be more trouble than benefit. Before entering into a partnership, always consider whether the partner in question is needed for the project and what their role will be. If one partner contributes with existing fixed assets (machinery, plant, etc.) and the other with new capital, the risk exposure of the two is considerably different. What are the responsibilities of each partner, the power relation between them and the distribution of expected returns? Balancing expectations is crucial for a successful partnership. As a rule of thumb, 50/50 partnerships must be avoided and procedures for dispute settlement must be in place before any disputes have time to arise. In other words, make sure that roles and responsibilities are clear from the outset – and who has the casting vote in case of disagreement.

If the project proposal is a joint venture or involves an acquisition of an existing business, due consideration must be given to the organisational merging process. It could be highly relevant to describe the organisation and management of local partners and how the transition phase will take place. Will existing employees and managers be kept in place? And is there a need for restructuring or replacing managers?

HOW CAN IFU ASSIST YOU?

When IFU joins the project as a shareholder, our standard set of investment and shareholders' agreements can provide the legal framework for the terms and conditions of the partnership.

CHECKLIST

- What is the proposed debt/equity ratio?
- Who are the anticipated partners and lenders?
- What are the indicative debt terms?
- What is the ownership structure?
- What is the expected requirement for working capital (incl. VAT)?

2.10 Financial analysis

One of the key elements of a business plan is the financial analysis, which builds on the considerations and research undertaken in the preceding sections. The financial analysis presents the financial feasibility and profitability of the project. Let us call it the "sanity check". While the number crunching must of course be used to attract investors, it is also an important tool in the analytical process as it is useful when determining the liquidity requirements and when performing a sensitivity analysis of the project's sustainability and profitability. Always make sure to clearly describe the assumptions behind the financial analysis as the numbers are never more impressing than the assumptions underpinning them.

Investment budget

The financial analysis must be based on a detailed investment budget. This budget should give a clear overview of the capital expenditure (CAPEX) investments and working capital investments to be undertaken as well as when the capital is needed (this could also be presented in the business case section or time schedule). The total investment budget must correspond to the required financing described in section 2.9.

Example: Investment budget

In DKK '000	Year 1	Year 2	Year 3	Total
Land	10,000			10,000
Buildings	15,000		5,000	20,000
Machinery	5,000	5,000	10,000	20,000
Working capital		5,000	5,000	10,000
Movables				
Other				
Total	30,000	10,000	20,000	60,000

CAPEX includes investments in land, buildings, equipment and working capital, including capital tied up in inventory, VAT and receivables. It is also recommended to include a contingency in the investment budget and describe how it has been estimated. The section could also introduce and describe any suppliers and sub-contractors. If an Engineering, Procurement and Construction (EPC) contract is part of the project, potential suppliers and their expected prices must be described.

Sales and costs

Sales projections: Sales projections and details on how the projections have been estimated must be presented. Volume and expected sales price must always be included in the presentation. It is important that this section is linked to the market description and that it is assessed wheather or not the volume projections and sales prices are realistic given the described market situation. If sales and costs are forecasted over a longer period of time, the assumptions with regards to growth rates should be described.

Operational costs: Projected operating costs must be presented by major categories of expenditures – salaries, raw materials, land rent, operation costs, administration costs, etc. This includes the projected staff costs, along with the expected number of employees, divided into types of labour (skilled, unskilled, and professional) and gender. Specific pay structures (management performance fees for example) essential to the business plan could also be relevant to include as well as the necessity of staff training and development. If an Organisation and Management (O&M) contract is part of the project, potential suppliers and their expected prices must be listed.

Example: Operational costs	DKK per year
Salaries	200,000
Land rent	80,000
Administration	35,000
Marketing	50,000
Management	75,000
Total	440,000

Budget forecast

Once the investment budget, financing overview and detailed sales and cost structure are laid down, they must be gathered in a full projected consolidated financial statement, which includes a profit and loss, a cash flow statement and a balance sheet. Depending on the nature of the business, the appropriate time horizon of the budget forecast may vary from three to ten years, with the exception of infrastructure projects which may require a projecting period of up to 20 years. While a wind park typically has an investment horizon of 20 years with a fixed power purchase contract for the entire period, a small retail operation may have no realistic way of forecasting developments further than three to five years ahead. Besides the investment horizon, the time required for the project to reach normal production must also be considered. This could for instance be when the project has reached full capacity or when the market is expected to be mature.

IFU INSIGHTS

Three commonly repeated budgeting misjudgements:

1. Sales and growth in sales volumes are overestimated.
2. Costs of implementation and the time required to reach full production are underestimated.
3. Working capital requirements are underestimated – the company binds more liquidity in stock, VAT receivables and trade receivables than anticipated.

Profit and loss: Earnings before interest and depreciation (EBITDA) can be found by subtracting the costs from the sales forecasts. Depreciation methods and relevant taxes must be briefly described, including the applied corporate tax rate and any local investment incentives such as tax holidays. Interest and debt service should be based on agreed or anticipated debt terms.

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Cash flows: It is important to set up the projected cash flows for the project as the cash flow will clearly illustrate if the financing is sufficient. The cash flow is built from the operating cash flow. Future working capital needs must be considered - i.e. what are the expected days of inventory, accounts payables and receivables? What are the required investments for maintenance of the fixed assets?

Balance sheet: The initial opening balance is given from the investment and financing budget. By using the existing information on net income, depreciation, debt repayment and working capital needs, a balance sheet forecast can be constructed.

Key figures: Key ratios must be included to provide an overview of the financial profitability and sustainability of the project. Consider if it is meaningful to include expected financial returns for the investor? The debt service coverage ratio could also be included to comfort lenders that the project will be able to service the debt.

Example: Budget forecast

In DKK '000	Year 1	Year 2	Year 3	Year 4	Year X (Last year)
Profit and loss					
Turnover	1,000	2,000	2,000	3,000	5,000
EBITDA	500	1,000	1,000	1,500	2,500
EBIT	400	800	700	1200	2,200
Profit after tax (25%)	300	600	525	900	1,650
Declared dividends	0	0	400	400	800
Operating cash flow	450	950	1,050	1,400	2,300
Balance sheet					
Fixed assets	2,000	1,800	1,600	1,400	600
Inventory & receivables	500	750	750	1,000	2,000
Cash	500	750	1,050	1,200	1,200
Equity	750	1,050	1,650	1,775	3,000
Payables	250	250	250	825	800
Interest bearing debt	2,000	2,000	1,500	1,000	0
Total balance	3,000	3,300	3,400	3,600	3,800
Key figures					
EBITDA margin	50%	50%	50%	50%	50%
Return on equity	40%	57%	32%	51%	55%
Debt service coverage ratio	1.2x	1.1x	1.6x	2.2x	N/A

It is important to make sure that price input is consistently made in either nominal or real prices. In high inflation countries IFU will prefer that a forecast is made in real prices. It should also be considered if there are any currency mismatches between income and cost items and if any currency risks for the investment should be stated.

Sensitivity analysis

A sensitivity analysis can help uncover risks and areas which you need to pay special attention to. Moreover, it can help to determine whether the size of the investment appears adequate compared to the liquidity requirements of the project. A scenario analysis is carried out by running one or two scenarios where you test the effects on profitability and financial sustainability to see if any of the scenarios materialises. This could for example be a decrease in the expected sales volume or an increase in staff costs. A common approach is to start with the "base case scenario" and then consider individually the best and worst case scenarios. The three scenarios can be defined as follows:

<u>The "base case scenario":</u>
The scenario presented in the budget forecast, which is also the scenario most likely to happen.
<u>The "best case scenario":</u>
Throwing conservative assumptions aside, if the positive expectations are generally fulfilled, what is the outcome of the project?
<u>The "worst case scenario":</u>
Consider the main risks of the project. What will happen if one or more of the listed risks do indeed occur, and how will it impact liquidity and profitability?

For a more detailed description of the fundamentals of budgeting, we refer to "IFU's Financial Handbook".

IFU INSIGHTS

Emergency capital is expensive capital

Although the future is difficult to predict, the importance of a budget forecast process cannot be emphasized enough. An underestimated investment and financing budget may be fatal to the project implementation as the cost of additional capital is much higher than the cost of capital planned and contracted at the time of establishment. It may be an advantage to include a cost overrun of 10-25% of share capital in the shareholders agreement, which will be injected by all equity holders in the case of cost overruns.

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Business is like chess: To be successful, you must anticipate several moves in advance.

WILLIAM A. SAHLMANN,
PROFESSOR AT HARVARD BUSINESS SCHOOL

FINANCIAL RISK

- **Financial performance and liquidity**
  Consider the degree to which the project is exposed to risks related to liquidity and financial performance.
- **Currency and inflation**
  The risks related to inflation and transactions denominated in different currencies should also be given careful consideration, and the need for currency hedging should be assessed.

CHECKLIST

- The financial analysis must include
  - Investment budget
  - Financing budget (committed and needed)
  - Budget forecast for a relevant time horizon
  - Main assumptions behind the financial forecast
  - Expected profitability of the project
  - Sensitivity analysis
- Is the budget in nominal or real prices?
- Are suppliers and sub-contractors identified?
- How do the existing infrastructure facilities correspond to the project needs? Does the project involve construction of new infrastructure?
- What is the breakdown of the projected operational costs?
- What is the expected number of full time employees and what kind of labour is required?

2.11 Risks and opportunities – summing it all up

By now the business plan will be a thorough description of the entire project, including everything from idea to marketing strategy and financials.

A brief analysis of the main risks and opportunities cannot only provide a powerful summary of the business project, but also help the reader to better understand the nature of the project. Additionally, while the financial risk analysis has already been carried out in the sensitivity analysis, this exercise allows for a more holistic overview of the risk-reward scenario the project entails. The analytical approach can be inspired by theories on strategy or just plain common sense. However, the outcome must answer the basic question: What are the risks and opportunities of entering into this business project?

Risk assessment

Investment projects in developing countries are characterised by being exposed to a wide variety of risk factors that are low or non-existent in a European context. To assess whether investing in a business project is a good decision, a thorough risk analysis must be conducted and the highlights must be presented in the business plan.

The risk assessment must summarise the identified risks and, as a rule of thumb, all risks deemed high or medium must be mentioned in the business plan. For each risk factor, the probability of the risk materialising must be described together with the impact on the business if it does. Moreover, any potential mitigation measures (such as insurance, hedging, guarantees, and alternative strategies) must also be described.

Depending on the country, industry and business concept, the main elements of a risk assessment may differ significantly. IFU proposes that a thorough risk analysis involves considerations on risk related to management, market, financial and country-related risks. As part of IFU's appraisal of the investment project, IFU will act as your sounding board to elicit and detect risks and pitfalls in the project.

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IFU INSIGHTS

What are your Must-Win Battles?

A good exercise when assessing your strategy is to identify three so-called "Must-Win Battles" – milestones or success criteria which must be fulfilled if the project is to be considered a success. When they have been identified, it should be considered whether the managerial capabilities required to reach them are in place. By measuring the process towards completing the Must-Win Battles, it is possible to get 'early warning' signals that the business plan is not progressing as anticipated. Examples of Must-Win Battles could be:

1. Positive EBITDA after 6 months of operation.
2. Establish company name as a luxury brand in China with a solid customer portfolio.
3. Second production unit is in full operation by November 2018.

"Risk comes from not knowing what you're doing.

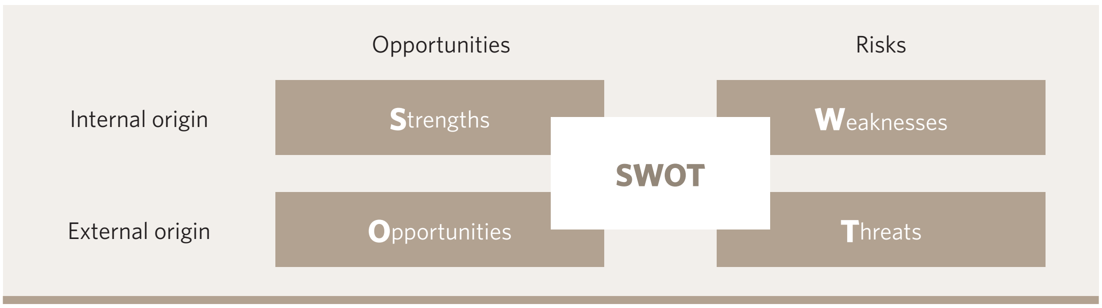
WARREN BUFFETT,
CEO OF BERKSHIRE HATHAWAY

Example: Risk Overview

Risk	Mitigation/comments	Assessment
Commercial risk		
Description of risk	Mitigating factors/proposed mitigation measure	Low/Medium/High
Technology risk		
...	...	Low/Medium/High
Financial risk		
...	...	Low/Medium/High

SWOT analysis

One approach to a risk analysis is a business strategy classic, the SWOT analysis, which basically identifies and compares strengths, weaknesses, opportunities and threats of the strategy. Strengths and opportunities are the positive aspects, the "reward", whereas weaknesses and threats summarise the risks involved.



CHECKLIST

- What are the main risks to the project? For each risk, you should discuss
  - What is the likelihood of the risk occurring?
  - What will the impact be if it does occur?
  - How can it be mitigated?
- Types of risk which might be relevant:
  - Market risk
  - Management risk
  - Partner risk
  - Legal and regulatory risk
  - Construction risk
  - Customer risk
  - Country risk (political stability, exchange rates, etc.)
  - Sustainability risk
- Also consider any project-specific risks.
- Is it relevant to include the outcome of a SWOT analysis?
- What are the three Must-Win Battles for the project to become a success?

2.12 Time schedule

While not inevitably constituting a section of the business plan in its own right, a time schedule is not only a necessary and indispensable tool in practical business development, it also helps a potential investor get an overview of the next steps and the proposed timing. Moreover, it allows all the stakeholders involved to understand when and why an extra effort in reaching deadlines is needed. Based on our experience, IFU is often able to give advice on whether the envisioned time schedule is realistic.

The timeline must include development, construction and start of operations, listing important dates, deadlines and milestones such as financial close, application deadlines, exclusivity periods, etc. If a set of Must-Win Battles has been formulated, the deadlines for reaching them must also be listed on the timeline.

Visualising the time schedule and sharing it among all the stakeholders involved in the project helps to mitigate the risk of faulty planning and costly delays. It must be as realistic as possible and avoid over- or understating the expected development.

IFU INSIGHTS

It always takes longer than you expect

Without exception, the project implementation always takes longer than anticipated.

Overoptimistic planning puts you in double jeopardy. First, you risk rapidly losing credibility with your partners if your set milestones are not met. Second, overoptimistic planning may result in cost overruns, leading to liquidity shortages and resulting in expensive short-term debt facilities, because revenue income does not materialise as foreseen.

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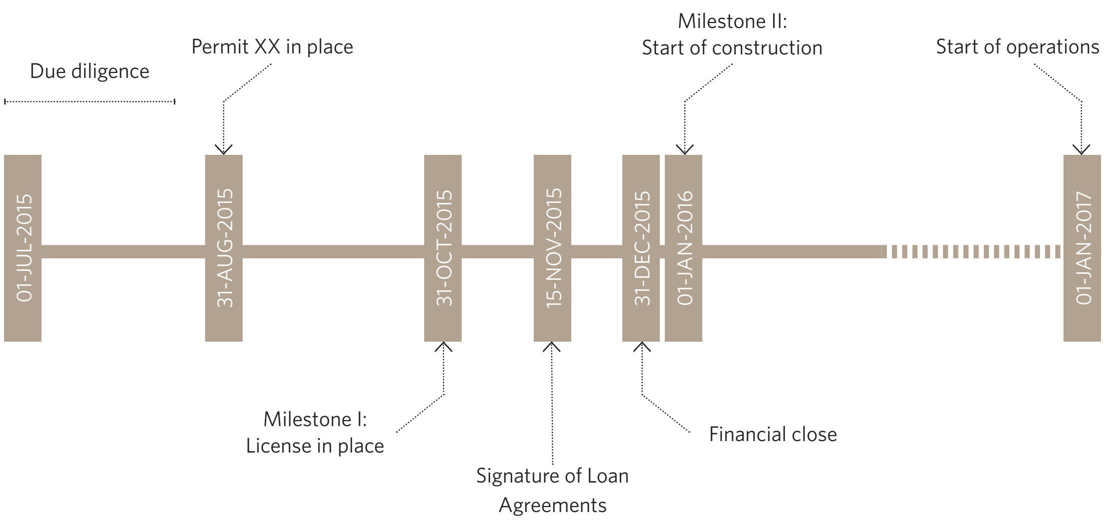
You may delay, but time will not.

BENJAMIN FRANKLIN,
18TH CENTURY STATESMAN
AND DIPLOMAT

Example: Timeline



2.13 Appendices

Any information that is deemed relevant for a potential investor, but too technical, detailed or complex to enter directly into the business plan, must be included in the appendices.

As part of IFU's internal appraisal process, we always require the following information from our potential partners:

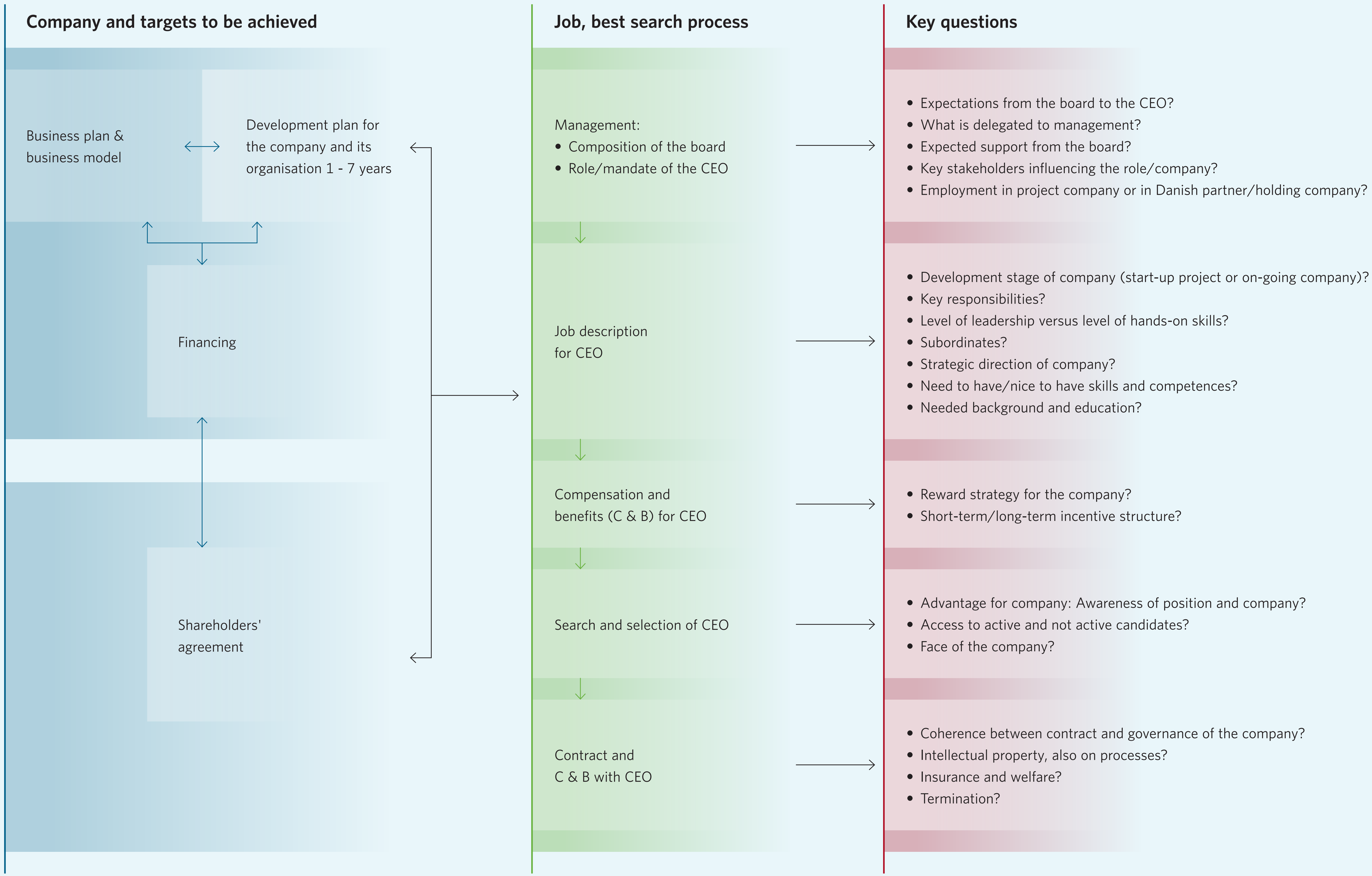
- Financial accounts from the last three years of the developer company and main partner(s).
- Financial model (preferably in Excel format. Excerpts of forecasts and main results must be inserted into the financial analysis section).
- CVs of management team (if not already included in the business plan).

Other documents that may be relevant to include in the appendices include:

- Copies of leases and contracts.
- Maps and photos of location.
- Letters of support from future customers.
- Feasibility studies.
- Information on ownership and financial performance of partners.

Appendix

A. Best practice for selection of management



B. Guidelines for board members

A brief guide to the assignments and responsibilities related to board representation.
For more information, we refer to our handbook: "IFU's Best Practice on Boardwork".

First board meeting:

- ☐ Agree on type of board (regular board, supervisory board).
- ☐ Appoint chairman and vice chairman (unless already stipulated in shareholders' agreement). Agree on responsibilities and role of board members and the chairman in particular. IFU's board representative will not normally perform the task as chairman.
- ☐ Appoint company secretary for minutes and agree on timing and procedure for circulation of draft minutes.
- ☐ Appoint general manager.
- ☐ Decide on rules of authorisation for the general manager.
- ☐ Decide on signatory rules/banks.
- ☐ Decide on which staff members are allowed to participate in board meetings apart from general manager *(Preferably the CFO participates regarding budget and financial reporting, head of HR regarding organisational matters and head of production regarding production issues and related).*
- ☐ Procure offers for auditors and for company legal adviser.
- ☐ Agree on rules of procedure for the board of directors.
- ☐ Agree on corporate governance policy.
- ☐ Agree on sustainability policy, CSR self-assessment, anti-corruption policy and HIV/AIDS guidelines.
- ☐ Discuss board members' liability/insurance *(Legal opinion must be procured in order to clarify the position/risk in the host country).*
- ☐ Discuss if an annual "Corporate compliance report" should be prepared by an external law firm or internal controller.
- ☐ Decide on who (chairman and/or general manager) will be the spokesperson of the company and board – i.e. who will communicate with the press.
- ☐ Agree on format for standard agenda for ordinary board meetings.
- ☐ Agree on format for annual sustainability report *(See IFU's sustainability report guidelines).*
- ☐ Agree on format for periodical financial reporting *(See IFU's Financial Handbook).*
- ☐ Fix dates and venue for meetings for next 12 months, incl. theme/main subject for each meeting, and if meetings can be held by phone (Skype) or mail *(At least half of the board meetings should be held on the project company's premises).*
- ☐ Observe formalities for operations through holding company.
- ☐ Observe local formalities/requirements.

Following board meetings:

- ☐ Minutes from previous board meeting on time? Call and agenda on time?
- ☐ Decide on an auditor.
- ☐ Decide on choice of company legal adviser.
- ☐ Decide on other "leftovers" from the first board meeting.

Last board meeting in financial year:

- ☐ Budget on time?
- ☐ Discussion of budget prior to Annual General Meeting (AGM) approval: Ensure the existence of documentation on insurance coverage.

First board meeting in financial year:

- ☐ Annual sustainability report and audited accounts on time?
- ☐ At board meeting prior to AGM: Make sure all government taxes and tariffs are paid.
- ☐ Insist on having the auditors present, if at all possible, both during the board meeting and during the AGM.

Mandatory reading:

- ☐ Agreements, memorandum and articles of association.
- ☐ Legal opinions
- ☐ Business plan

Recommended reading:

- ☐ Renton, Tony (2001): "Standards for the Board: Improving the effectiveness of your board".
- ☐ Renton, Tony & John Watkinson (2001): "The Company Director's Guide: Your Duties, Responsibilities & Liabilities".
- ☐ VÆKSTHUS Hovedstadsregionen: "Bestyrelseshåndbogen: Om professionelle bestyrelser".
- ☐ www.corporategovernance.dk

C. Checklist: Key questions

2.1 Executive summary

- ☐ What is the business concept?
- ☐ What is your competitive advantage?
- ☐ Who are the stakeholders and management?
- ☐ What kind of technology is used?
- ☐ How does the product fit with market?
- ☐ What is the long term mission?
- ☐ What kind of capital is needed?
- ☐ What is the expected investment horizon?

2.2 Company presentation

- ☐ What do you do?
- ☐ What kind of business are you in?
- ☐ Who are you? Who owns the company? Include a diagram describing the ownership structure
- ☐ What is the company history?
- ☐ How good are you at what you do? Present the financial performance over the last couple of years (turnover, net result, equity, etc.).
- ☐ How does this project align with the long term company strategy?

2.3 Business case

- ☐ What is the business concept and rationale? Describe the main product/service – what problem does it solve?
- ☐ Who is going to buy it?
- ☐ How is this business going to generate a profit? What is the pricing or fee structure of your products and services?
- ☐ What is the competitive advantage of this product compared to its competitors?
- ☐ Why has the specific country and site been chosen?
- ☐ What is your production technology level compared to the local competitors in the market? Best technology available, average well known technology or lower quality technology employed?
- ☐ Does the company have or need to obtain any licenses or patents critical to the company’s business?

2.4 Market, industry and competition

- ☐ What characterises the industry? (Balance of power, technology level etc.)
- ☐ What is the total current size of the market?
- ☐ What is your current market share?
- ☐ What are the growth expectations of the total market size?
- ☐ What are the growth expectations of your market share?
- ☐ Who are the major players in the market?
- ☐ Do you have a marketing strategy?
- ☐ What are the expected sales in terms of price and volume?
- ☐ What is the level of technology compared to the industry?

2.5 Organisation and management

- ☐ How does the organisational set-up and managerial layers look? Include an organisational chart.
- ☐ Has the management team been identified?
  If yes: Who are the members of your management team and what skills do they contribute with?
  Has the team worked together before? Are there any skill gaps which need to be filled?
  If not: What experience and skills are needed and how will the selection process take place?
- ☐ How are the compensation packages for key management personnel structured?
  Are there any performance-based elements?

2.6 Corporate Governance

- ☐ Does the company have a corporate governance policy?
  Does the company have a code of ethics?
- ☐ Does the company have a designated officer responsible for ensuring compliance with the company's corporate governance policy and code of ethics? How is compliance monitored?
- ☐ What is the composition of the board of directors and/or how is it determined?
- ☐ Are there any independent directors? How were/will they be selected?
- ☐ How often does the board of directors meet?
- ☐ What is understood as the role of the board of directors vis-à-vis management?
  In particular with respect to the following:
  (1) Setting strategy and vision of the company;
  (2) Selecting the CEO and senior management
- ☐ How does the mix of skills/experience on the board of directors serve the company's interests?

2.7 Sustainability

- ☐ What are the development impacts of the project? Job creation, technology transfer, community development, infrastructure, etc.
- ☐ Have potential environmental, social and associated reputational risks been identified? If yes, how are they addressed?
- ☐ Is the top management committed to sustainability?
- ☐ Has/will the project adopt a written sustainability policy?
- ☐ Is a suitably trained person with appropriate knowledge of sustainability issues assigned or available?
- ☐ Will the project implement an environmental and social management system to guide the daily work?

2.8 Legal, regulatory and political environment

- ☐ How is the country risk assessed? Is the country in general viewed as a high or low risk market?
- ☐ Are there any government incentives or support?
- ☐ What is the relevant tax legislation?
- ☐ Are there any legal issues to consider with regards to e.g. capital entry, exit or repatriation?
- ☐ Are there any import or export restrictions?
- ☐ Are licenses and permits in place?

2.9 Structure and financing

- ☐ What is the proposed debt/equity ratio?
- ☐ Who are the anticipated partners and lenders?
- ☐ What are the indicative debt terms?
- ☐ What is the ownership structure?
- ☐ What is the expected requirement for working capital (incl. VAT)?

2.10 Financial analysis

- ☐ The financial analysis must include
  - Investment budget
  - Financing budget (committed and needed)
  - Budget forecast for a relevant time horizon
  - Main assumptions behind the financial forecast
  - Expected profitability of the project
  - Sensitivity analysis
- ☐ Is the budget in nominal or real prices?
- ☐ Are suppliers and sub-contractors identified?
- ☐ How do the existing infrastructure facilities correspond to the project needs? Does the project involve construction of new infrastructure?
- ☐ What is the breakdown of the projected operational costs?
- ☐ What is the expected number of full time employees and what kind of labour is required?

2.11 Risks and opportunities - summing it all up

- [ ] What are the main risks to the project? For each risk, you should discuss
  - What is the likelihood of the risk occurring?
  - What will the impact be if it does occur?
  - How can it be mitigated?
- [ ] Types of risk which might be relevant:
  - Market risk
  - Management risk
  - Partner risk
  - Legal and regulatory risk
  - Construction risk
  - Customer risk
  - Country risk (political stability, exchange rates, etc.)
  - Sustainability risk
- [ ] Also consider any project-specific risks
- [ ] Is it relevant to include the outcome of a SWOT analysis?
- [ ] What are the three Must-Win Battles for the project to become a success?

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